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UNITED STATES GENERAL ACCOUNTING OFFICE

REGIONAL OFFICE

ROOM 1903 JOHN F. KENNEDY FEDERAL BUILDING
GOVERNMENT CENTER

BOSTON, MASSACHUSETTS 02203

June 5, 1974

093/69

Gertrude T. Hunter, M D , Regional Health Director
Health Services and Mental Health Administration
Public Health Service
Department of Health, Education, and Welfare
John F. Kennedy Building
Boston, Massachusetts 02203

Dear Dr. Hunter:

The U S General Accounting Office is reviewing the grant and contract programs of the Department of Health, Education, and Welfare (HEW) and the Office of Economic Opportunity (OEO) aimed at developing health maintenance organizations

During our review at the Penobscot Bay Medical Center, Rockport, Maine (the Center), we noted certain matters relating to the OEO grant that warrant attention. Because responsibility for OEO health grants has been transferred to HEW, we are presenting our findings for your comment and action.

BACKGROUND

The Center was formed in January 1969 to develop a comprehensive health care program for a 27-town area of about 40,000 people. The Center has received the following grants from OEO

<u>Type of Grant</u>	<u>Period Covered</u>	<u>Amount</u>
Planning	July 1, 1970 to June 30, 1971	\$ 85,028
Operational	July 1, 1971 to June 30, 1973	897,321
Operational	July 1, 1973 to June 30, 1974	886,765

The operational grants provided funds to:

--construct and operate an Ambulatory Care Unit (ACU) in Rockland, Maine, and

--pay a prepaid premium (capitation) to cover the cost of providing medical services to enrollees

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The Center began providing medical services to enrollees on July 25, 1972, and estimated that at the end of the first year of operation, 2,000 people (571 families) would be enrolled. Enrollment on June 30, 1973, was 1,406--302 family and 105 single enrollments.

The Penobscot Bay Medical Associates (the Associates), a group of 40 physicians, provide services under an agreement with the Center. The agreement provides for the Associates to be paid a capitation rate for each enrollee, the individual physicians are paid on a fee-for-service basis

FINDINGS

Because of an apparent misunderstanding over how to handle the capitation funds, the OEO grant was overcharged \$144,932

--the grant was charged for estimated rather than actual enrollment - \$109,605,

--actual enrollment was lower than reported enrollment - \$7,630,

--single enrollees were charged to the grant at the family rate - \$17,164,

--enrollees with Medicare and/or Medicaid coverage were included in monthly enrollment totals - \$10,533.

The Center also earned \$2,246 by investing OEO funds which was not forwarded to the Treasurer of the United States as required by OEO guidelines. The details of our findings follow.

Grant charged for estimated
instead of actual enrollment - \$109,605

The Center estimated that by the end of their first year of operation, they would be providing services to 571 families at a monthly capitation charge of \$37.22. Capitation charges to the grant were made monthly as if 571 families were enrolled when the actual enrollment reported to OEO by the Center was less than this number.

As of June 30, 1973, the capitation reserve--the difference between the capitation charged to the grant and that earned based on reported enrollment--was \$109,605 (See attachment.)

Although the grant did not specify whether estimated or actual enrollment was to be used in determining the capitation charges, OEO officials told us that charges to the grant should have been based on actual enrollment. They added that if the capitation charges were based on estimated enrollment, any funds left over because of underenrollment should have been returned or reprogrammed.

The \$109,605 accumulated during the prior year, however, has not been returned to OEO or used to reduce the current grant. We noted that the current OEO grant specifically requires that actual enrollment be used in determining capitation charges.

Reported enrollment
overstated - \$7,630

Our review of the Ambulatory Care Unit's records disclosed that actual enrollment was less than reported enrollment.

From July 25, 1972 to June 30, 1973, charges to the OEO grant included 205 more monthly capitation charges at \$37.22 than the actual number of enrollees. As a result, the grant was overcharged \$7,630

Single enrollees charged
as families - \$17,164

Although the Center had developed a monthly capitation rate of \$15 63 for single enrollments, the family rate was used in computing charges to the grant. From July 25, 1972 to June 30, 1973, charges to the OEO grant included 795 monthly capitation charges for single enrollees at the family rate of \$37.22 instead of at the single rate of \$15 63. As a result, the grant was overcharged \$17,164.

Medicare and Medicaid
enrollees - \$10,533

The Center included OEO-eligible enrollees with coverage under the Medicare and/or Medicaid program (Titles 18 and 19 of the Social Security Act) in monthly enrollment totals when determining capitation charges. According to Center officials, physicians, hospitals, and the ACU are reimbursed directly by the Medicare and Medicaid fiscal agents for services provided these enrollees. Since the health services of these enrollees are paid for by other agencies, monthly capitation charges for them should not be made against the grant.

Enrollment of Title 18 and 19 eligibles began in January 1973, and through June 30, 1973, the Center had charged the grant for 283 monthly capitation charges for these persons at \$37.22 each resulting in excess charges of \$10,533

Interest earned on capitation
reserve funds - \$2,246

As of August 23, 1973, the Center had earned \$2,246 by investing some of the capitation reserve funds in 90-day United States Treasury Bills. Although OEO guidelines require interest earned on OEO funds to be paid to the Treasurer of the United States, this had not been done.

Need for adjustments to
financial records

Financial transactions between the Center and the Associates are summarized in a general ledger account. Each month the Center credits this account with the capitation due the Associates (the number of enrollees multiplied by the capitation rate) and charges the account for the actual amount of physician and hospital costs. The balance represents either a surplus or loss from providing medical services.

The agreement between them provides that any surplus will be distributed as follows:

--the first 5 percent will be returned to the Associates,

--from 5 to 10 percent will be returned to the Center to be used as it sees fit,

--above 10 percent will be returned to the Center and used to expand services, facilities, and equipment and to reduce premiums.

The agreement also provides that the first 5 percent of losses will be absorbed by the Associates and the balance by the Center.

The Associates' account balance on June 30, 1973, showed a surplus of \$3,488. A distribution of funds had not been made at the time we completed our fieldwork.

Proper recognition of our findings on the Center's financial records will require adjustments to the Associates' account and will result in this account showing a loss of \$31,839 instead of a surplus of \$3,488 as shown below

Account balance - 6/30/73	\$ 3,488
Decrease due to overstatement of capitation charges	
Overstatement of enrollment	\$ 7,630
Single enrollees charged as families	17,164
Medicaid and Medicare enrollees incorrectly included in capitation charges	<u>10,533</u>
Total decrease	\$(35,327)
Adjusted account balance (loss)	<u>\$(31,839)</u>

CONCLUSIONS

The Government has incurred \$144,932 of excess grant charges because of the manner in which the Center charged OEO for the capitation rates.

In addition, the Center has earned \$2,246 by investing Federal funds and has not sent this money to the U. S. Treasury as required by OEO guidelines

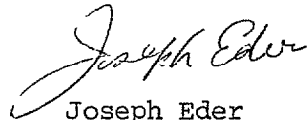
RECOMMENDATIONS

We recommend that the Health Services and Mental Health Administration (HSMHA) regional office

- reduce the Center's current grant by \$147,178--the amount of overcharges and the interest earned on Federal funds,
- require the Center to use the proper capitation rate for single persons,
- require the Center to stop charging capitation for those covered by Medicare and Medicaid,
- ensure that the Center makes appropriate adjustments to the Associates' account

We would appreciate your comments on these matters within 60 days from the date of this letter. We would be pleased to discuss it with you further if you desire.

Sincerely yours,

A handwritten signature in cursive script that reads "Joseph Eder". The signature is written in dark ink and is positioned above the printed name and title.

Joseph Eder
Regional Manager

Attachment:
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SUMMARY OF CAPITATION RESERVE

<u>Month</u>	<u>Capitation Charged</u> (Estimated Enrollment X \$37.22)		<u>Capitation Earned</u> (Reported Enrollment X \$37.22)		<u>Difference</u> (Capitation Reserve)	
	<u>Enrollment</u>	<u>Amount</u>	<u>Enrollment</u>	<u>Amount</u>	<u>Enrollment</u>	<u>Amount</u>
July 1972	114 ^a	\$ 4,250.52	25 ^a	\$ 908 17	89	\$ 3,342 35
August 1972	571	21,252 62	183	6,811 22	388	14,441 36
September 1972	571	21,252.62	218	8,113 96	353	13,138 66
October 1972	571	21,252 62	278	10,347 16	293	10,905 46
November 1972	571	21,252 62	285	10,607 70	286	10,644 92
December 1972	571	21,252 62	298	11,091 56	273	10,161 06
January 1973	571	21,252 62	320	11,910 40	251	9,342 22
February 1973	571	21,252 62	346	12,878 12	225	8,374 50
March 1973	571	21,252 62	329	12,245.38	242	9,007.24
April 1973	571	21,252 62	362	13,473 64	209	7,778 98
May 1973	571	21,252 62	395	14,701 90	176	6,550 72
June 1973	571	<u>21,252 62</u>	412	<u>15,334 64</u>	159	<u>5,917 98</u>
Total		<u>\$238,029.34</u>		<u>\$128,423 89</u>		<u>\$109,605 45</u>

^aRepresents 20 percent of July enrollment because services started on July 25, 1972.